

Federal
Deposit
Insurance
Corporation
Annual
Report
1998

Maintaining
public confidence
in the
banking system

Each Depositor Insured to \$100,000



FEDERAL DEPOSIT INSURANCE CORPORATION



The Federal Deposit Insurance Corporation

(FDIC) is the independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other federal and state regulatory agencies, the **FDIC** promotes the safety and soundness of insured depository institutions and the U.S. financial system by identifying, monitoring and addressing risks to the deposit insurance funds.

The **FDIC** promotes public understanding and sound public policies by providing financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The **FDIC's** long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.

F e d e r a l D e p o s i t I n s u r a n c e C o r p o r a t i o n

FDIC

Federal Deposit Insurance Corporation

Washington, DC 20429-9990

Office of the Chairman

August 5, 1999

Sirs,

In accordance with the provisions of section 17(a) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation is pleased to submit its Annual Report for the calendar year 1998.

Sincerely,



Donna Tanoue
Chairman

The President of the U.S. Senate
The Speaker of the U.S. House of Representatives

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O v e r v i e w

In terms of earnings, 1998 was an extraordinary year for banking. Despite declines in net income in the third and fourth quarters, commercial banks earned a record \$61.9 billion for the year as a whole. Return on assets—or ROA, a basic yardstick for profitability—was 1.19 percent. Savings institutions' earnings reached a record \$10.2 billion in 1998—\$1.4 billion above the previous record set in 1997. That \$10.2 billion translated into a 1.01 percent ROA—the highest annual ROA for savings institutions since 1946.

The Bank Insurance Fund grew 4.7 percent during the year to \$29.6 billion, and the Savings Association Insurance Fund grew 5 percent to \$9.8 billion. The funds are strong—in fact, they are at record levels.

Having strong deposit insurance funds is important to everyone. In effect, deposit insurance makes a bank failure a nonevent for an average household customer. Because the government provides an absolute guarantee, people do not have to worry about the safety of their savings, and because they do not have to worry, they do not feel compelled to rush to the bank to get their money out in response to the news—or rumor—that their institution is troubled financially. In the 1980s and early 1990s, nine percent of the banks in the United States—nearly one-out-of-10—either failed altogether or received FDIC financial assistance to stay open, and nearly 1,300 savings and loan associations also failed. Because of federal deposit insurance, there was no widespread panic or bank runs.

Deposit insurance protects depositors. But just as important—perhaps even more important—is the fact that, in preventing banking panics, deposit insurance keeps the payments system operating.

In recent years, we've seen financial crises in Asia and Latin America—crises that, in part, have led 21 countries to institute explicit deposit insurance programs since May of 1995. Today, 68 countries have such systems. Clearly, the benefits of deposit insurance are appreciated worldwide.

Deposit insurance, however, doesn't alone ensure stability in the financial marketplace. It addresses only one potential problem, albeit a problem that can cripple, or even bring down, a financial system: the evaporation of public confidence in banking. Stability also requires both effective economic policy and effective prudential supervision.

When the three contributors—effective economic policy, effective prudential supervision, and deposit insurance—are present, experience has shown that stability in the financial marketplace can be achieved and maintained.

The conditions in the industry—and the strength of our insurance funds—in 1998 gave the FDIC opportunity to focus on three corporate priorities—Year 2000

readiness; emerging risks facing insured institutions, and, therefore, the insurance funds; and diversity in our workforce. Each in its way contributed to our efforts to ensure that the FDIC remains the world's leading deposit insurance authority.

Year 2000

The Year 2000, or Y2K, computer challenge was the FDIC's highest safety-and-soundness priority during the year. Examiners visited all FDIC-supervised institutions at least once by May 31 to assess progress toward Y2K readiness, and thereafter began a second round of on-site assessments. To maintain communication with the banking industry on the issue, the FDIC—along with the Federal Financial Institutions Examination Council and industry trade associations—conducted an extensive nationwide outreach program for bankers. The FDIC participated in more than 130 seminars attended by more than 11,000 bankers.



David Hathcox

▲ **Chairman Donna Tanoue**

The FDIC also addressed consumer awareness and concerns on the Y2K issue with two publications. The first was a brochure, *The Year 2000 Date Change*, which answers basic consumer questions. All FDIC-insured institutions were provided with camera-ready versions of the brochure, in both English and Spanish, so they could reproduce copies for their customers. More than 10 million copies of the brochure were distributed in 1998. The second was a special issue of the quarterly *FDIC Consumer News*, which was devoted entirely to Y2K, and included features on the efforts of federal banking regulators to protect bank customers and a list of steps that consumers can take to help protect themselves. We arranged to distribute this issue of the *FDIC Consumer News* through the federal Consumer Information Center in Pueblo, CO, as well as through insured financial institutions.

As the year drew to a close, it became more apparent that maintaining public confidence in banking was an important element in the Y2K challenge. If the conventional wisdom during 1999 were for people to take sensible precautions, most would likely take sensible precautions. If the conventional wisdom were for people to take extreme measures, many would take extreme measures. To promote sensible conventional wisdom, the FDIC followed a simple communications strategy: The more people know about Y2K and banking—and about the efforts of both the industry and the regulators—the more comfortable they would be. Public confidence will be strengthened by regular, consistent and clear communications.

During 1998, we told a three-part story on banking and Y2K. One, bankers have been working aggressively to meet the Y2K challenge. Two, regulators are aggressively supervising the banks' preparations to become Y2K-ready. While no one could say there won't be glitches, we have a great deal of confidence that the banking industry will be ready. (In fact, by summer 1999, virtually all banks and savings institutions had satisfactory Y2K ratings.) And three, money in an FDIC-insured account is safe—the Year 2000 will not affect our guarantee.

As the year ended, the Corporation began to refine and expand the information we would communicate on Y2K and banking to meet ever-shifting public concerns.

Lastly, along with the Federal Reserve, the FDIC in December hosted a Year 2000 summit on behalf of the President's Council on Year 2000 Conversion for financial institutions and members of the utilities and telecommunications industries. The forum focused on the participants' progress in addressing the Y2K computer challenge.

Emerging Risks

As a risk to the banking industry, the Y2K challenge is unique, but FDIC-insured institutions face other emerging risks as well.

By most measures of prosperity, this is the best economy in a generation. Inflation and unemployment are at levels not seen since the 1960s. Consumer spending and business investment are propelling growth even at this late stage of the expansion. The recent performance of the U.S. economy is a triumph of technology, as well as of U.S. fiscal and monetary policy.

It is also uncharted territory, so this is no time for complacency.

Moreover, our economy has become linked to the health of—and events in—foreign economies. This linkage has increased the potential for sudden adverse economic and financial events.

During the third quarter of 1998, for example, a default in Russian debt and the resultant difficulties with hedge funds, such as those experienced by Long Term Capital Management, LP, showed how interconnected the world had become and how quickly and dramatically events can affect world markets. That makes our job of watching the horizon all the more important.

Strong competition in the financial marketplace has placed pressure on banks to look for ways to maintain market share and increase profitability—and these pressures may also be forcing institutions to compromise their underwriting standards. The market currently rewards high-performing banks to an unprecedented degree, giving some lenders incentive to take increased risk.

For example, we are seeing a proliferation of non-traditional consumer lending that is currently highly profitable—subprime and high loan-to-value home equity lending. These “new frontiers” in consumer lending are pushing institutions into riskier territory where some are having problems, even though times are good.

Responding to risks on the horizon is a challenge, but the FDIC also must respond to the long-term changes in the banking industry that will ultimately shape the way we do our jobs. Among these trends are the growing concentration of the FDIC's exposure in the largest banks we insure; expansion of business activities conducted by banks and their affiliates; globalization of banking and increasing affiliations with non-bank financial companies; electronic banking; and the growing segmentation of the industry into a few large banks, and many small ones. The changes underway make it more challenging—and more important—for the FDIC to understand the risks being underwritten by the deposit insurance funds.

In light of globalization, the Corporation in September hosted an international conference on deposit insurance—the first of its kind. The conference brought together senior government authorities from 62 countries. Discussions focused on the role of deposit insurance in maintaining public confidence in the world's banking systems.

The widespread response to our invitation reflected global interest in deposit insurance issues—and their importance. Deposit insurance is becoming a frequent condition of international funding agreements, and there is substantial international demand for the FDIC's assistance—and leadership—in this area.

During the conference it became clear that the FDIC has expertise and leadership to offer by designing and publishing best practices for deposit insurance systems around the world. It also became clear that the FDIC should take advantage of opportunities, such as gatherings of international bankers, to describe our best practices concepts. The FDIC was also asked to consider investigating the creation of an international consortium for sharing information on deposit insurance.

Diversity

As the year drew to a close, we created an executive-level Diversity Steering Committee to ensure an inclusive workplace at the FDIC. Diversity is a business imperative for the Corporation for three reasons. The first is that trends and events in the financial-services industry and in society at large affect the FDIC—we do not operate in a vacuum. In that regard, the composition of the national employee pool is dramatically changing as a result of the increasing diversity of our society. The second reason is that one out of every six employees in the FDIC is eligible to retire in the next five years. As a result, we will need to conserve and replenish our institutional knowledge and expertise. For the Corporation to continue to be successful, we must retain and recruit the most qualified and most motivated employees that we can. We must maintain and enhance our reputation as a place where people want to work. We must continue to be an employer of choice. The third reason is that the increasing diversity of our society directly affects the depositors we insure and the customers and employees of financial institutions. We need to understand their needs.

I would like to end on a personal note. Since becoming FDIC Chairman, I have been reminded every day that the men and women of the FDIC are extraordinarily dedicated and talented. It is a privilege to work with them. The Corporation has challenges ahead of it—challenges from a changing financial industry and a changing America. But the FDIC will rise to meet those challenges because of the men and women who stand behind it and who, day in and day out, maintain the FDIC seal as a symbol of confidence. Because of the work they have done, the FDIC has a proud history, but because of who they are, the Corporation's best years are yet to come.

Sincerely,



Donna Tanoue
Chairman

March 12

The FDIC reported that insured commercial banks earned record annual profits for 1997, reaching \$59.2 billion, up \$6.8 billion from 1996 results. Strong growth in loans and other interest-earning assets was responsible for the earnings rise. In 1998, bank earnings set a new record for the seventh consecutive year at \$61.9 billion (see Pages 10–11).

April 4

FDIC Board member Eugene A. Ludwig's tenure on the Board ended with the expiration of his five-year term as Comptroller of the Currency. On December 8, John D. Hawke, Jr., was sworn in as the 28th Comptroller of the Currency, filling the FDIC Board seat vacated by Mr. Ludwig. In the interim, Julie L. Williams, as Acting Comptroller, served on the FDIC Board (see Page 21).

April 9

Omnibank, River Rouge, Michigan, was the first FDIC-insured bank to fail since November 1997. Two more banks failed during 1998. All three banks were insured by the Bank Insurance Fund (see Page 31).

April 28

The FDIC Board voted to simplify the deposit insurance rules, making them easier to understand and less burdensome without reducing the consumer protections or safety-and-soundness standards for institutions (see Pages 28, 50).

April 29

At a two-day symposium, "Managing the Crisis: The FDIC and RTC Experience," current and former FDIC and Resolution Trust Corporation (RTC) executives discussed the strategies they used to resolve troubled banks and thrifts during the financial crisis of the 1980s and '90s. Between 1980 and 1994, a total of 1,617 banks and 1,295 thrifts failed (see Page 32).

A new Internet service was launched giving the public quick and easy access to Community Reinvestment Act evaluations for banks and thrifts supervised by the FDIC. The FDIC's ratings and evaluations can be accessed from the agency's Web site (see Page 127).

May 26

Donna Tanoue was sworn in as the 17th Chairman of the FDIC. Andrew C. Hove, Jr., who had served as Acting Chairman since June 1997, resumed his position as the agency's Vice Chairman (see Pages 20–21).

May 31

FDIC examiners had completed at least one on-site review at each institution the FDIC regulates to assess efforts to address Year 2000 issues. At year-end 1998, 97 percent of the institutions were making satisfactory progress toward achieving Year 2000 readiness (see Pages 14–15, 25).

June 18

The FDIC announced its "Suspicious Internet Banking" Web site designed to help detect potentially fraudulent Internet banking activity. The site provides the public and the industry with a "user-friendly" vehicle for reporting entities on the Internet that may be misrepresenting themselves as legitimately chartered or federally insured depository institutions (see Pages 35, 127).

July 7

The FDIC Board voted to expedite the processing of applications filed by well-managed, well-capitalized institutions. More than 90 percent of all FDIC-supervised banks meet the eligibility standards (see Pages 27, 51).

August 17

With the rapid growth of electronic commerce and the increased collection of consumers' personal information over the Internet, the FDIC alerted bankers to the issue of online privacy. The FDIC encouraged institutions to maintain an awareness of consumers' online privacy concerns, while taking voluntary, specific actions to address them (see Page 35).

September 9

Top government officials from 62 countries, including the leaders of deposit insurance agencies in more than 20 nations, met in Washington, DC, for a three-day FDIC-sponsored conference to discuss the role of deposit insurance in sustaining public confidence in the world's banking systems (see Pages 3, 17, 29).

September 28

The FDIC unveiled a new Internet service allowing the public easy access to a listing of banks' pending applications that are subject to public comment (see Page 127).

Selected Statistics

Dollars in millions

For the year ended December 31

1998 1997 1996

Bank Insurance Fund

Financial Results

Revenue	\$ 2,000	\$ 1,616	\$ 1,655
Operating Expenses	\$ 698	\$ 605	\$ 505
Insurance Losses and Expenses	\$ (6)	\$ (428)	\$ (251)
Net Income	\$ 1,309	\$ 1,438	\$ 1,401
Insurance Fund Balance	\$ 29,612	\$ 28,293	\$ 26,854
Fund as a Percentage of Insured Deposits	1.38%	1.38%	1.34%

Selected Statistics

Total BIF-Member Institutions [•]	9,031	9,403	9,822
Problem Institutions	68	73	86
Total Assets of Problem Institutions	\$ 5,000	\$ 5,000	\$ 7,000
Institution Failures	3	1	5
Total Assets of Failed Institutions	\$ 370	\$ 26	\$ 183
Number of Active Failed Institution Receiverships	219	302	408

Savings Association Insurance Fund

Financial Results

Revenue	\$ 584	\$ 550	\$ 5,502
Operating Expenses	\$ 85	\$ 72	\$ 63
Insurance Losses and Expenses	\$ 32	\$ (2)	\$ (92)
Net Income	\$ 467	\$ 480	\$ 5,531
Insurance Fund Balance	\$ 9,840	\$ 9,368	\$ 8,888
Fund as a Percentage of Insured Deposits	1.39%	1.36%	1.30%

Selected Statistics

Total SAIF-Member Institutions [▪]	1,430	1,519	1,630
Problem Institutions	16	19	31
Total Assets of Problem Institutions	\$ 6,000	\$ 2,000	\$ 6,000
Institution Failures	0	0	1
Total Assets of Failed Institutions	\$ 0	\$ 0	\$ 35
Number of Active Failed Institution Receiverships	2	2	2

[•] Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.

[▪] Savings institutions and commercial banks.

September 30

Joseph H. Neely resigned as a member of the FDIC's Board of Directors. He had served since January 29, 1996.

A "user-friendly" electronic deposit insurance estimator called "EDIE" became available on the FDIC's Web site. The service enables consumers and financial institution employees to quickly check whether a depositor with multiple accounts at the same institution has exceeded the \$100,000 statutory limit for deposit insurance coverage (see Pages 19, 36, 127).

December 18

The FDIC Board approved a 1999 budget of \$1.218 billion, an 11 percent decrease (\$148 million) from the \$1.366 billion authorized for 1998. The budget will allow the agency to pursue its supervisory plans to ensure the safety and soundness of insured financial institutions and the industry's Year 2000 compliance (see Page 42).



WWReid



WWReid

▲ Donna Tanoue at her April 22nd Senate confirmation hearing. She was accompanied to the hearing by both of Hawaii's senators—Daniel K. Inouye (top) and Daniel K. Akaka (below).

The FDIC administers two deposit insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The agency also manages a third fund fulfilling the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC), called the FSLIC Resolution Fund (FRF). On January 1, 1996, the FRF assumed responsibility for the assets and obligations of the Resolution Trust Corporation (RTC).

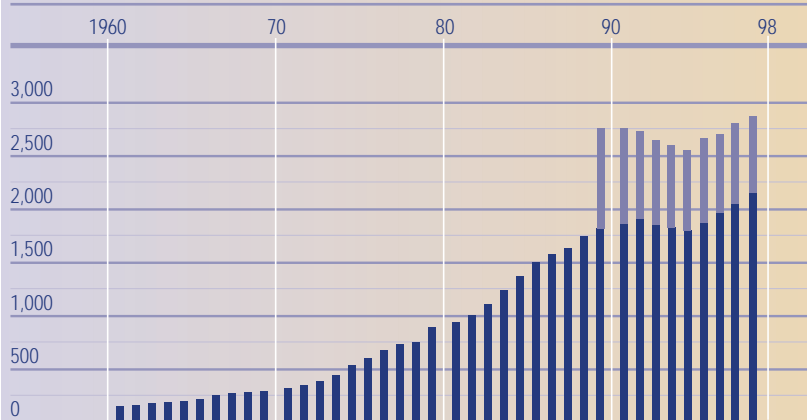
The economic environment in 1998 remained favorable for the banking and thrift industries, resulting in relatively few problem institutions, high profitability and increased capitalization. During the third quarter, a default in Russian debt and the resulting difficulties with hedge funds, such as those experienced by Long Term Capital Management, LP, illustrated the speed with which financial market volatility and foreign sector developments can affect insured institutions. During 1998, some insured institutions continued to increase their exposures to an economic downturn through higher-risk lending and other practices. This is suggested by evidence of weakening underwriting standards, narrower interest-rate spreads, and increased concentrations in higher-risk loans. The potential effect of these trends on the deposit insurance funds depends on the nature of any national or regional economic downturns.

An overview of the funds' performance during 1998 follows. **(Full details about the funds appear in the financial statements that begin on Page 57.)**

FDIC-Insured Deposits (as of December 31, 1998)

Dollars in billions

SAIF-Insured
BIF-Insured



Source: Commercial Bank Call Reports and Thrift Financial Reports
Note: For more details, see pages 57 (BIF) and 75 (SAIF).

Bank Insurance Fund

With banks experiencing another highly profitable year and only three bank failures, 1998 was another positive year for the BIF, despite adverse trends in the global economic picture. The BIF has grown steadily from a negative fund balance of \$7 billion at year-end 1991 to \$29.6 billion at year-end 1998. The 1998 fund balance represents a 4.7 percent increase over the 1997 balance of \$28.3 billion. BIF-insured deposits grew by 4.1 percent in 1998, yielding a reserve ratio of 1.38 percent of insured deposits at year-end 1998, unchanged from year-end 1997.

Deposit insurance assessment rates in 1998 were unchanged from 1997. For both semiannual assessment periods in 1998, the Board voted to retain rates ranging from 0 to 27 cents annually per \$100 of assessable deposits. Under these rates, 95.1 percent of BIF-member institutions, or 8,808 institutions, were in the lowest-risk assessment rate category and

paid no deposit-insurance assessments for the second semiannual assessment period of 1998. This rate schedule resulted in an average 1998 BIF rate of 0.08 cents per \$100 of assessable deposits.

As in 1997, interest earned on U.S. Treasury investments (\$1.7 billion) exceeded assessment revenue (\$22 million) and was the primary source of revenue for the BIF in 1998. This was a result of minimal insurance losses and receivership activity, the continued low assessment rate schedule and the concentration of institutions in the lowest-risk category.

Bank failures continued to be minimal in 1998. Only three BIF-member institutions, with assets totaling \$370 million, failed during the year. In 1997, one BIF-member institution with assets of \$25.9 million failed. Estimated insurance losses of the banks that failed in 1998 were \$179 million, compared to \$4 million in estimated losses for the one failure in 1997.

Risk-Related Premiums

The following tables show the number and percentage of institutions insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), according to risk classifications effective for the second semiannual assessment period of 1998. Each institution is categorized based on its capitalization and a supervisory subgroup rating (A, B, or C), which is generally determined by on-site examinations. Assessment rates are basis points, cents per \$100 of assessable deposits, per year.

BIF Supervisory Subgroups*

	A	B	C
Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	8,808 (95.1%)	248 (2.7%)	33 (0.4%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	132 (1.4%)	18 (0.2%)	15 (0.2%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	4 (0.0%)	0 (0.0%)	7 (0.1%)

SAIF Supervisory Subgroups*

Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	1,354 (91.9%)	83 (5.6%)	9 (0.6%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	14 (0.9%)	7 (0.5%)	5 (0.3%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	1 (0.1%)	0 (0.0%)	1 (0.1%)

- BIF data exclude 111 SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same throughout 1998.
- SAIF data exclude 760 BIF-member "Oakar" institutions that hold SAIF-insured deposits. The assessment rate reflects the rate for SAIF-assessable deposits, which remained the same throughout 1998.

For the BIF in 1998, investments in U.S. Treasury obligations continued to be the main component of total assets, at 94.4 percent, compared to 93.8 percent in 1997. The financial position of the BIF continued to improve as cash and investments at year-end were 92 times total liabilities, up from 85.6 times the total liabilities in 1997. In 1998, the BIF had operating expenses of \$697.6 million and net income of \$1.3 billion, compared to operating expenses of \$605 million and net income of \$1.4 billion in 1997.

Savings Association Insurance Fund

The SAIF ended 1998 with a fund balance of \$9.8 billion, a 5.0 percent increase over the year-end 1997 balance of \$9.4 billion. Estimated insured deposits increased by 2.8 percent in 1998. During the year, the reserve ratio of the SAIF grew from 1.36 percent of insured deposits to 1.39 percent.

For both semiannual assessment periods of 1998, the Board retained the rate schedule in effect for 1997, a range of 0 to 27 cents annually per \$100 of assessable deposits. Under this schedule, the percentage of SAIF-member institutions that paid no assessments increased from 90.9 percent in the first semiannual assessment period to 91.9 percent in the second half of the year, as more institutions qualified for the lowest-risk assessment rate category. This rate schedule resulted in an average 1998 SAIF rate of 0.21 cents per \$100 of assessable deposits.

The SAIF earned \$15 million in assessment income in 1998, compared to \$563 million in interest income. In 1998, the SAIF had operating expenses of \$85 million and net income of \$467 million, compared to operating expenses of \$72 million and net income of \$480 million in 1997. For the second consecutive year, no SAIF-member institution failed in 1998.

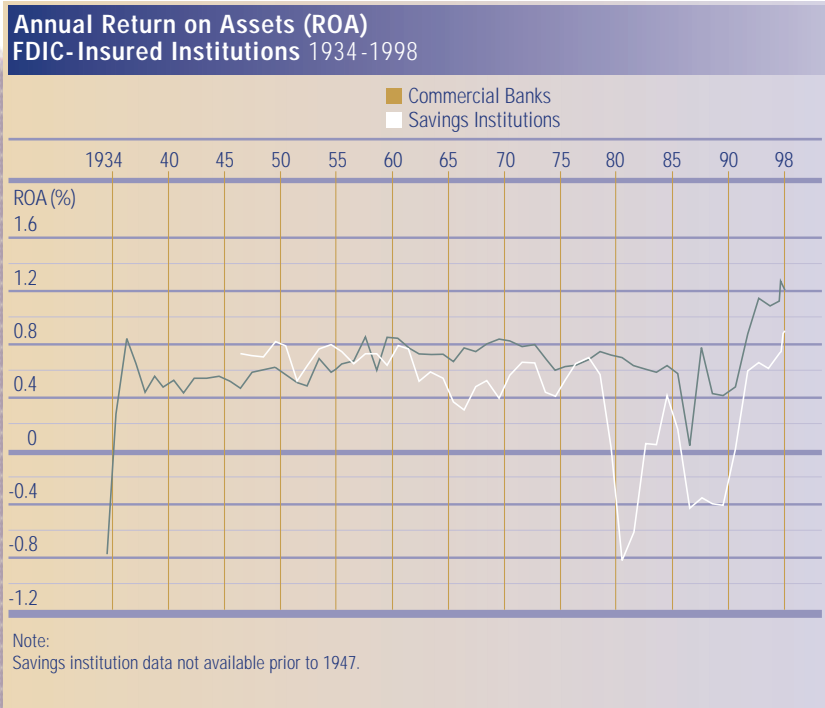
Under the Deposit Insurance Funds Act of 1996, the FDIC must set aside all SAIF funds above the statutorily required Designated Reserve Ratio (DRR) of 1.25 percent of insured deposits in a Special Reserve on January 1, 1999. No assessment credits, refunds or other payments can be made from the Special Reserve unless the SAIF reserve ratio falls below 50 percent of the DRR and is expected to remain below 50 percent for the following four quarters. Effective January 1, 1999, the Special Reserve was funded with \$978 million, reducing the SAIF unrestricted fund balance to \$8.9 billion and the SAIF reserve ratio to 1.25 percent.

The SAIF Special Reserve was mandated by Congress in the Deposit Insurance Funds Act. It was not proposed in order to address any deposit-insurance issues. However, by eliminating any cushion above the DRR, the creation of the Special Reserve on January 1, 1999, increases the likelihood of the SAIF dropping below the DRR. This, in turn, increases the possibility that the FDIC would be required to raise SAIF assessment rates sooner or higher than BIF assessment rates, resulting in an assessment rate disparity between the SAIF and the BIF. In 1998, legislation that would have eliminated the Special Reserve was introduced in the Congress but did not pass.

FSLIC Resolution Fund

The FRF was established by law in 1989 to assume the remaining assets and obligations of the former FSLIC arising from thrift failures before January 1, 1989. Congress placed this new fund under FDIC management on August 9, 1989, when FSLIC was abolished. On January 1, 1996, the FRF also assumed the RTC's residual assets and obligations.

Today, the FRF consists of two distinct pools of assets and liabilities. One pool, composed of the assets and liabilities of the FSLIC, transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC). The other pool, composed of the RTC's assets and liabilities, transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other. The FRF-FSLIC had resolution equity of \$2.098 billion as of December 31, 1998, and the FRF-RTC had resolution equity of \$8.224 billion as of that date.



The economic environment remained largely favorable for commercial banks and savings institutions in 1998. These favorable conditions were reflected in record earnings for both industries. Commercial bank earnings set a new record for the seventh consecutive year, surpassing \$60 billion for the first time, while savings institutions enjoyed their second consecutive year of record profits, passing \$10 billion for the first time. Never before had both industries registered a return on average assets (ROA) above one percent. They overcame declining net interest margins and higher expenses related to mergers and restructuring charges with the help of strong growth in assets and fee income, and relatively low expenses for credit-quality problems. Only three commercial banks failed during the year and, for the second consecutive year, no insured savings institution failed. The following is an overview of conditions in these two industries.

Commercial Banks

Insured commercial banks posted record earnings of \$61.9 billion in 1998, an increase of \$2.8 billion (4.7 percent) from 1997 results. Commercial bank performance benefited from strong asset growth and a continued rise in fee income. Industry assets rose by \$425 billion (8.5 percent) during the year, led by a \$264 billion (9.1 percent) increase in loans. The growth in interest-earning assets helped lift net interest income by \$8.3 billion (4.7 percent) above the 1997 level. Noninterest income was \$19.2 billion higher than in 1997, reflecting very strong growth in fee income. In addition to these positive factors, banks earned \$1.3 billion more from sales of securities in 1998 than in 1997.

The improvement in earnings was limited by a \$24.1 billion increase in noninterest expense, a \$2.4 billion increase in loan-loss provisioning, and a 14-basis point decline in the average net interest margin. Restructuring charges related to mergers at several large institutions accounted for much of the rise in noninterest expenses. The higher provisions for credit losses mirrored an increase in charge-offs and noncurrent loans. The decline in the industry's net interest margin—the difference between the average yield on interest-bearing assets and the average cost of funding those assets—was caused by a combination of declining asset yields and rising funding costs. The year marked the sixth consecutive time that the industry's margin declined, and the 14-basis point drop was the steepest year-to-year decline since 1974-75, when it fell by 30 basis points.

The average ROA fell to 1.19 percent in 1998 from 1.23 percent in 1997. Despite the decline, 1998 was the sixth consecutive year that the industry's ROA had been above one percent, a level first achieved by the industry in 1993. Almost two out of every three banks (63.2 percent) registered an ROA of one percent or better in 1998. Almost as many (61.8 percent) reported higher earnings than in 1997.

Business loan growth was especially strong in 1998. Loans to commercial and industrial borrowers increased by \$103 billion (12.9 percent), while real estate loans secured by commercial properties grew by \$30 billion (8.9 percent) and construction and land development loans rose by

\$18 billion (20.9 percent). In addition to the growth in direct loans, banks' holdings of mortgage-backed securities increased by \$86 billion (22.4 percent). Banks continued to expand their credit card lending, but the amount of credit card loans on banks' balance sheets declined by \$2 billion during 1998 because of an increase in securitization activity. The amount of credit card loans securitized and sold by banks rose by \$63 billion in 1998 to \$254 billion at year-end. These securitized receivables now exceed the amount of credit card loans remaining on banks' balance sheets.

A fourth-quarter surge helped deposits register their largest annual percent increase since 1986. Total deposits increased by \$260 billion (7.6 percent) during 1998. Nevertheless, deposit growth failed to keep pace with growth in total assets, and the share of commercial bank assets that are funded by deposits declined for the seventh consecutive year. As recently as 1991, deposits funded 78.3 percent of commercial bank assets. At the end of 1998, deposits funded slightly more than two out of every three dollars of assets (67.7 percent). The shortfall in deposit funding was covered by growth in nondeposit borrowings and equity capital.

Asset quality deteriorated slightly in 1998, as both credit losses and noncurrent loans increased. Banks charged off \$20.7 billion in loans in 1998, an increase of \$2.4 billion (13.0 percent) over 1997. Noncurrent loans increased for the first year since 1990, rising by \$2.7 billion. For the fourth time in as many years, credit card loans comprised more than half of all loans charged off by commercial banks. Net charge-offs of credit

card loans totaled \$11.5 billion in 1998, or 55.4 percent of all loan charge-offs. The increase in noncurrent loans was led by a \$2.2 billion rise in noncurrent commercial and industrial loans. Despite the growth in noncurrent loans, the percentage of loans that were noncurrent at year-end (0.96 percent) was unchanged from a year earlier because of growth in banks' loan portfolios. This noncurrent rate is only slightly above the record low level of 0.94 percent, reached at the end of the second and third quarters of 1998.

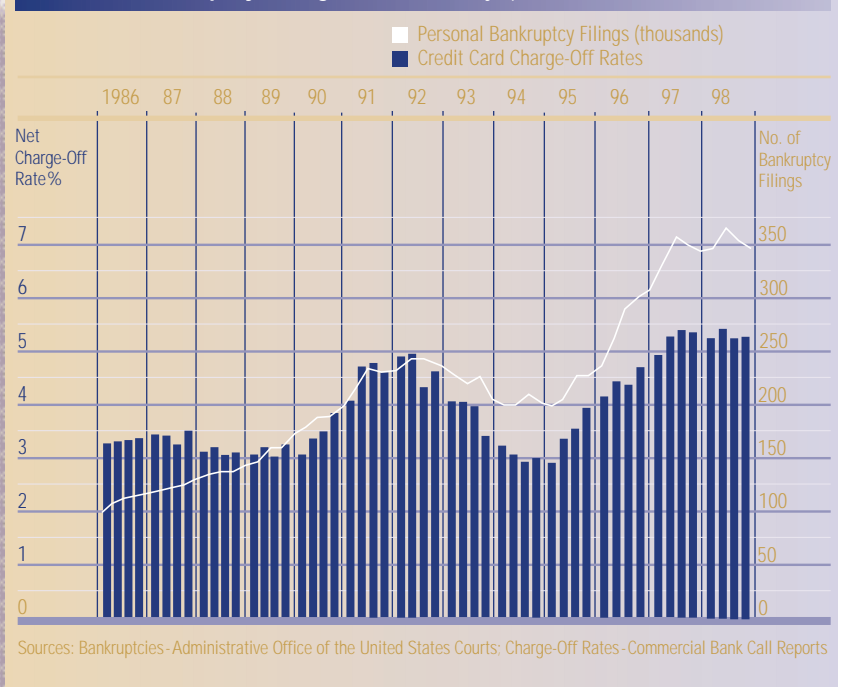
The number of insured commercial banks declined for the 14th year in a row. At year-end 1998, there were 8,774 commercial banks reporting financial results, a decline of 368 banks during the year. Mergers absorbed 557 banks, and three banks failed, while there were 190 new banks chartered and two noninsured institutions

became insured. At year-end 1998, there were 5,708 fewer insured commercial banks than at the end of 1984, a decline of 39.4 percent. The number of commercial banks on the FDIC's "Problem List" declined from 71 institutions to 69 (with \$5.4 billion in assets) during the year.

Savings Institutions

Insured savings institutions earned \$10.2 billion in 1998, an increase of \$1.4 billion (15.6 percent) from 1997. Noninterest income was \$2.2 billion (30.9 percent) higher than in 1997, and gains from sales of securities and other assets were \$1.2 billion (95.0 percent) higher. Earnings also received a boost from increased net interest income

Credit Card Losses and Personal Bankruptcy Filings 1986-1998 (by quarter)



(up \$554 million, or 1.9 percent) and lower credit-loss provisions (down \$413 million, or 18.9 percent). These improvements were partially offset by a \$2.5 billion (11.7 percent) rise in noninterest expenses. The industry's ROA rose to 1.01 percent in 1998 from 0.93 percent in 1997. For the first year since 1946, federally insured thrifts posted an ROA above one percent. Unlike the commercial banking industry, high profitability was not as widespread among insured savings institutions. Fewer than one in three thrifts (30.5 percent) had an ROA of one percent or higher in 1998, but this group included many of the largest savings institutions. Smaller thrifts were generally less profitable than their larger counterparts.

As with commercial banks, insured savings institutions experienced a sharp decline in net interest margins in 1998. For the year, the thrift industry's net interest margin was 3.10 percent, down from 3.23 percent in 1997. The modest improvement in net interest income in 1998 was entirely the result of strong asset growth. Assets of savings institutions increased by over \$61 billion (6.0 percent) during 1998, the largest increase in industry assets in 10 years.

The increase in thrift industry assets in 1998 consisted primarily of assets other than loans. In an environment of low interest rates, most residential mortgage loan demand was for fixed-rate loans; a considerable share of mortgage lending in 1998 represented refinancing of higher-rate, fixed-rate mortgages and adjustable-rate mortgages. Lenders preferred not to retain these long-term, fixed-rate assets, opting instead

to securitize and sell many new mortgage loans. While thrifts' 1-to-4 family residential mortgage loans increased by \$11 billion (2.2 percent) in 1998, their holdings of mortgage-backed securities grew by \$26 billion (14.6 percent).

Deposit growth at savings institutions in 1998 was negligible. Total deposits increased by only \$395 million (0.1 percent). Funding for asset growth came from nondeposit borrowings, including Federal Home Loan Bank advances. Equity capital increased by over \$5 billion (5.7 percent) in 1998, but the industry's equity-to-assets ratio fell slightly, from 8.71 percent at year-end 1997 to 8.68 percent at year-end 1998.

The number of insured savings institutions declined by 93 institutions in 1998. Mergers absorbed 114 thrifts, while 28 new savings institutions were chartered—the largest number since 1990. Thrifts converting to commercial bank charters accounted for most of the remaining reduction in thrift numbers. For the second consecutive year, no insured savings institutions failed. The number of insured thrifts on the FDIC's "Problem List" fell from 21 to 15 during 1998. Assets of "problem" thrifts totaled \$5.9 billion at year-end.

The Year 2000 date change presents challenges for the financial services industry and its regulators. If this issue is not addressed, computers may be unable to record and process information accurately.

The Year 2000 challenge was the FDIC's highest safety-and-soundness priority in 1998. The Corporation took aggressive action during the year to address the Year 2000 date change, including issuing guidance to financial institutions, performing outreach activities, conducting comprehensive on-site assessments at banks, training staff and preparing contingency plans. The FDIC also addressed the effects of the Year 2000 date change on its own automated systems.

The FDIC, in partnership with the other agencies of the Federal Financial Institutions Examination Council (FFIEC), issued substantial guidance to the industry in 1998 on how to address certain Year 2000-related issues. The guidance states that banks should ensure the involvement of the board of directors and management in Year 2000 efforts, adopt written project plans, renovate mission-critical systems, complete tests of the renovated systems by specific deadlines, plan for contingencies, appropriately manage Year 2000 risk posed by customers and develop Year 2000 customer awareness programs. Milestone dates by which financial institutions should accomplish certain Year 2000-related responsibilities are prescribed in the guidance.

To maintain open communication with the banking industry about Year 2000 issues, the FDIC and the FFIEC conducted an extensive nationwide banker outreach program in conjunction with industry trade

organizations in 1998. The FDIC took part in more than 130 one-day seminars addressing regulatory expectations in the areas of testing and contingency planning. More than 11,000 bankers attended these sessions. Other Year 2000 outreach activities in 1998 included co-sponsoring a summit meeting on behalf of the President's Council on Year 2000 Conversion Financial Institution Sector Group; and monthly publication of an FDIC Year 2000 newsletter, which discusses important current issues and reminds bankers of regulatory expectations.

Customer Awareness

The FFIEC guidance requiring all FDIC-insured financial institutions to establish Year 2000 customer awareness programs underscores the FFIEC's belief that institutions have a responsibility to inform bank customers about the Year 2000 issue and the steps they are taking to minimize the potential for glitches. To help insured financial institutions comply with the FFIEC's guidance, the FDIC developed several publications in 1998 that bankers can use to educate their customers about the Year 2000 issue.

The first was a consumer brochure, *The Year 2000 Date Change*, which answers basic consumer questions about the Year 2000 issue. The brochure, developed by the FDIC in conjunction with the FFIEC, has a two-pronged message: first, that the FDIC and other federal banking agencies are taking strong action to assure the banking industry is ready for the new millennium; and second, that depositors' funds will continue to be protected by FDIC insurance. The FDIC provided all FDIC-insured institutions with camera-ready versions of the brochure, in both English and Spanish, so they could reproduce copies of the brochure for their customers. The brochure has been well-received by consumers and financial institutions alike, and more than 10 million copies were distributed to consumers in 1998. The brochure is also posted on the FDIC's Web site.



Mattox Photography

▲ The FDIC's Year 2000 project managers meet frequently to discuss the banking industry's progress in achieving Y2K readiness.



▲ The Year 2000 Date Change brochure for banking customers highlights the efforts of financial institutions and the Federal Financial Institutions Examination Council (FFIEC) to address the potential effects of the Year 2000 date change.

To help insured financial institutions get the FDIC's Year 2000 message across to an even larger audience, the FDIC developed a "statement stuffer" that institutions can conveniently include in customer account mailings. The FDIC's Year 2000 statement stuffer, which briefly emphasizes the two main messages in the consumer brochure, was sent to all insured financial institutions in late 1998. The statement stuffer is expected to be even more popular than the brochure.

In another major initiative to educate the public on the Year 2000 issue, the FDIC has devoted substantial coverage to the topic in its quarterly *FDIC Consumer News*. Three of four issues of the newsletter published in 1998 included articles on the Year 2000 challenge. The fall issue was devoted entirely to Year 2000-related topics of interest to consumers, including features on the efforts of federal banking regulators and banking institutions to protect bank customers, a list of steps consumers can take to help protect themselves, and an interview with Chairman Tanoue. *FDIC Consumer News* has a regular distribution to more than 50,000 homes, banks, consumer organizations, and other readers. To assure that this special Year 2000 edition reaches as broad an audience as possible, the FDIC also arranged to make the publication available through insured financial institutions and the federal Consumer Information Center in Pueblo, CO. *FDIC Consumer News* is also posted on the FDIC's Web site.

Along with these highly visible efforts, the FDIC took action to assure that its staff who answer consumer inquiries are trained on the Year 2000 issue. The volume of Year 2000 consumer inquiries

was relatively small in 1998—with only 38 inquiries for the year. However, consumer inquiries are expected to increase in 1999, and the FDIC has taken steps to ensure it is ready to handle consumer questions appropriately. In early 1999, the FDIC established a toll-free Year 2000 Call Center to answer the public's calls about Y2K.

On-Site Assessments

By May 31, 1998, the FDIC's bank examiners, with assistance from state bank regulators, completed the first round of on-site Year 2000 assessments for FDIC-supervised institutions. FDIC examiners also completed on-site assessments of all data service providers and vendors that the FDIC is responsible for examining. In these on-site assessments, examiners determined whether the board and senior management were actively involved in their institution's Year 2000 projects, whether their Year 2000 programs were comprehensive, and whether they understood regulatory requirements. Examiners also assessed whether institutions properly identified the scope of the Year 2000 issue and the resources that would be required to address technical problems.

The results indicated that the vast majority of financial institutions, as well as their service providers and software vendors, recognize the risk of the Year 2000 date change and are acting to address the issue. At year-end 1998, approximately 97 percent of FDIC-supervised institutions were making satisfactory progress toward achieving Year 2000 readiness. During 1999, examiners will continue to follow up on weaknesses detected in the first round of on-site examinations and, by March 31, will complete a second round that began in the latter half of 1998.

Internal Compliance

The FDIC has a rigorous, centralized strategy to address internal Y2K issues that should result in a smooth transition of its automated systems in the Year 2000.

The Corporation is adhering to timeframes established in guidance from the U.S. Office of Management and Budget (OMB) and the U.S. General Accounting Office for five stages of Year 2000 project management: awareness, assessment, renovation, validation, and implementation. The FDIC completed the renovation phase at the end of August 1998 in accordance with the OMB schedule, and at year-end was on schedule to continue meeting the other timeframes in the guidance.

The FDIC's strong management efforts should enable the Corporation to continue business as usual after January 1, 2000.

FDIC Consumer News

Fall 1998

Special Report
on the Year 2000

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Illustration: T.H. Baker, Jr.

The Year 2000, Your Bank and You

The government and the banking industry are working to keep the Y2K computer bug from affecting bank customers. Here's an FDIC guide to what you need to know and do to be ready.

The scenario for the "Year 2000" situation may seem like something created by Hollywood. Computer experts warn that systems worldwide could go haywire when midnight strikes on January 1, 2000. The news touches off a global rescue effort—a race against the clock—to ensure that our most basic services,

from water and electricity to medical care and banking, will continue with little or no interruption.

In the movies, the "good guys" usually have just seconds or minutes to solve the problem. But in the real-world story of the Year 2000 (also known as

continued on next page

▲ **The fall 1998 issue of the FDIC Consumer News was devoted entirely to Year 2000 topics, including government efforts to protect bank customers and steps consumers can take to help protect themselves.**

The FDIC faced the challenge of supervising an increasingly global banking industry during 1998. In that role, the Corporation took a number of steps in the international arena, such as monitoring foreign economies, supervising international banking activities, providing technical assistance to foreign supervisors and deposit insurers, and promoting cooperation and coordination among foreign bank supervisors.

Monitoring Foreign Economies

By monitoring foreign economies, the agency was able to assess the risks of current and emerging international issues to the FDIC's deposit insurance funds. The continued deterioration in global economies, particularly in Asia and among emerging economies, was probably the most significant international issue the FDIC monitored during 1998. In many countries throughout the world, the economic turmoil contributed to deterioration in the international banking sector's capital levels, asset quality and profitability. As a result, bank failures in some countries increased and worldwide confidence in the global economic system declined.

During 1998, the FDIC took appropriate actions to minimize any adverse impact on its deposit insurance funds resulting from deterioration in foreign economies. For instance, FDIC economists from the Division of Research and Statistics and Division of Insurance studied the indirect risks to U.S. banks of international lending resulting from the increased linkages of world economies. These linkages have become stronger

in recent years due to increased international trade and increased capital flows to and from emerging economies around the world, particularly East Asia, Eastern Europe and Latin America. Greater economic linkages among world economies increase the likelihood that one country's economic woes will adversely affect other countries. In an attempt to quantify the effects of indirect risks caused by trade fluctuations, FDIC economists are developing statistical models to measure the degree of international linkages and risks among world financial markets. These models will better enable the FDIC to determine the degree of risk to the insurance funds that may result from the international activities of FDIC-insured institutions.

Supervising International Banking Activities

The FDIC Division of Supervision's (DOS) on-site and off-site supervisory programs continued to focus on the increasing globalization of banking during 1998. DOS staff conducted quarterly reviews of foreign banking operations (FBOs) that have insured operating subsidiaries or branches in the U.S. These quarterly FBO reviews included detailed analyses of parent institutions, financial issues and current developments in home countries. The FDIC also closely reviewed U.S. banking organizations'

cross-border exposures, which result from their issuance of debt or off-balance sheet contracts to international entities. Along with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, the FDIC is a member of the Interagency Country Exposure Review Committee (ICERC), which assesses transfer risk (the risk that a foreign debtor will not be able to obtain dollars to repay U.S. creditors) in those countries to which U.S. banks have cross-border exposures. The FDIC chaired the ICERC during 1998.

Sharing Expertise With Other Countries

Over its 65-year history, the FDIC has accumulated a wealth of knowledge and experience that it shares with bank supervisors and deposit insurers around the world. Of particular interest is the FDIC's success in resolving the banking crisis that occurred in the 1980s and early 1990s, without a single loss to an insured depositor. The FDIC's success in resolving failing institutions enabled the nation to maintain confidence in the U.S. banking system.



▲ Vijay Deshpande (l), Director of FDIC's Office of Internal Control Management, talks with Central Bank officials from Sri Lanka (center) and Malaysia at the FDIC-sponsored international conference on deposit insurance in September.

The FDIC shared its expertise by providing technical advice to foreign supervisory authorities and deposit insurers. Technical advice is a relatively low-cost method of helping to improve the operations of foreign supervisory authorities and deposit insurers. It may contribute to the stability of foreign markets and reduce any adverse impact that international events may have on the FDIC's deposit insurance funds. During 1998, the FDIC met with representatives from Japan, Korea, Nigeria, Kenya, Croatia, Malaysia, Lithuania, England, Thailand, Slovakia, the Philippines, and other countries. The FDIC addressed a number of the foreign representatives' concerns, including how to liquidate failed-bank asset portfolios without damaging market or investor confidence.

The FDIC also provided training to supervisory personnel of foreign banking authorities. In conjunction with the Association of Banking Supervisory Authorities of Latin America and the Caribbean, the Corporation established a training curriculum on internal routines and controls, and the resolution process for failing institutions. The FDIC, through DOS, also participates in an ongoing effort with the Asian-Pacific Economic Cooperation Forum (APEC) to improve bank supervisory training in APEC-member countries. Further, the FDIC provided foreign supervisory authorities with the opportunity to gain hands-on experience in U.S. bank examinations. Throughout 1998, a number of foreign bank supervisors observed on-site examinations of banks to learn more about how the FDIC supervises U.S. institutions.

Promoting Cooperation Among Foreign Bank Supervisors

The FDIC consistently promotes cooperation and coordination among international supervisory authorities, resulting in stronger and more consistent supervisory standards. This, in turn, decreases risk to the FDIC's deposit insurance funds.

During 1998, the FDIC participated in a number of international efforts that promoted cooperation and coordination among bank supervisors around the world. The FDIC is a member of the Basle Committee on Banking Supervision, which formulates broad standards and guidelines for each of the member countries. The FDIC is an active participant in many facets of the Basle Committee's work, including subgroups and task forces that focus on such issues as capital, risk management and the Year 2000. During 1998, the FDIC provided extensive input on a number of important supervisory topics, including managing risks associated with electronic banking, improving public disclosure of international banking organizations and implementing strong internal control systems. Throughout 1998, DOS staff also worked with the U.S. Department of the Treasury on projects mandated by the Group of Seven (G-7) countries and the Group of Twenty-Two (G-22) countries. The G-7 and G-22 projects focused on strengthening international financial systems, including banking systems, improving information-sharing between domestic and foreign regulators and improving disclosure by banking organizations.

In September 1998, the FDIC hosted the International Deposit Insurance Conference in Washington, DC. The conference was the first of its kind to bring together deposit insurance authorities from around the world. Top government officials from 62 countries, including leaders of deposit insurance agencies from more than 20 nations, attended the conference. Keynote speakers included FDIC Chairman Donna Tanoue; Deputy Secretary of the Treasury Lawrence H. Summers; First Deputy Managing Director, International Monetary Fund, Stanley Fisher; and former FDIC Chairman Ricki Helfer. Discussion focused on the role of deposit insurance in maintaining public confidence in the world's banking systems. Other topics addressed were past strategies used to restore stability to various financial sectors, and the strategies' applicability in addressing problems that may arise in the international arena in the future.

Supervising an increasingly global banking industry will likely continue to be one of the FDIC's primary challenges in the future. The Corporation will remain diligent in its efforts to respond to international issues in order to maintain the stability of the FDIC's deposit insurance funds and further strengthen public confidence in the U.S. banking system.

Since 1933, the FDIC has contributed to the stability of the U.S. banking system. The FDIC's insurance program is designed to achieve three goals: provide insured depositors timely access to their funds in the event of a bank failure; ensure the viability of the insurance funds as risks and economic conditions change; and promote bank customers' understanding of the deposit insurance rules.

In 1998, the FDIC gave much attention to the scope and nature of deposit insurance in light of several ongoing trends. One was financial modernization, or the actual or proposed expansion of banking organizations into additional lines of business. Another was the changing nature of the global marketplace, where larger and more complex banks are taking on new businesses and risks. These and other trends spurred the FDIC to undertake a variety of initiatives in the administration of its insurance program in 1998.

Addressing Risks to the Funds

The ongoing debate over financial modernization raises fundamental questions with respect to the structure of banks and the role of deposit insurance. As continued innovations in technology and information services allow financial service providers to offer a full range of products, the distinction between banking and nonbanking organizations has become increasingly blurred. The challenge for policymakers is to provide a statutory and regulatory framework that allows the financial services industry to evolve while maintaining the safety and soundness of

individual insured institutions, the stability of the financial system and a level competitive playing field. The FDIC has supported initiatives that would expand the range of activities permissible for banking organizations, if the activity poses no significant safety-and-soundness concerns. Further, the FDIC has supported the ability of banking organizations to have the flexibility to choose the corporate or organizational structure that best suits their needs, provided adequate safeguards exist to protect the insurance funds and the taxpayer.

On January 29, 1998, the FDIC sponsored a symposium to promote a discussion of the role and nature of deposit insurance. The audience included bankers, regulators, consumer and trade group representatives, academics and congressional staff members. A wide range of opinions was expressed and a number of interesting ideas deserving further consideration were discussed. Among the issues covered were the use of additional information for determining risk-based insurance premiums; the appropriate reserve-ratio target and other matters relating to management of the deposit insurance funds; proper coverage levels and funding arrangements for small versus large institutions; and ways to enhance the FDIC's ability to identify, analyze and act on risks to the insurance funds and the banking industry.

In an effort to identify and respond to these risks more quickly and effectively, the FDIC continued to refine the examination process to emphasize an institution's risk-management systems and the risks each individual institution faces. Examiners look beyond the static condition of an institution to how well it can respond to changing market conditions.

In addition, analysts in the Division of Insurance (DOI) closely monitor trends in the financial services industry and the economy, and work closely with FDIC examiners to help assess emerging risk exposure for individual banks and groups of banks by providing comprehensive regional economic data and analysis. Articles in the 1998 issues of *Regional Outlook*, DOI's quarterly publication, addressed topics such as mergers and consolidations in the banking and thrift industries, lending concentrations in real estate, the Asian crisis, volatility in financial markets, and the Year 2000 issue. Another resource, "The Regional Economic Condition Report for Examiners," or RECON, is an Internet-based application introduced by the FDIC in 1998 to provide supervisory personnel quick and easy access to a wealth of local economic data.

The risk-related premium system is another means through which the FDIC can address risks in the banking industry. The Corporation is required to maintain a deposit insurance premium schedule that reflects the risks posed to the insurance funds by member institutions. While the current nine-category premium schedule is based primarily on capital ratios and examination ratings, the FDIC is authorized to consider other information when assigning institutions to particular risk categories.

Twice a year, the FDIC sets deposit insurance assessment rates for members of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). These rate schedules are supported by analysis of the probable losses to the funds, failure-resolution expenditures and income, expected operating expenses, revenue needs of the insurance funds, the impact of assessments upon insured institutions, and any other factors that the Board deems relevant.

Throughout 1998, the FDIC and other banking agencies identified the possible build-up of risk in the banking system due to easing credit standards. Regulators observed that a growing number of institutions exhibited risky loan concentrations, poor underwriting practices, and weak internal controls. These signals were particularly troubling because they appeared against a backdrop of global instability, as the financial crisis in Asia deepened and economic shock waves from Russia jolted Brazil and other countries.

In light of these indications of increased risk at the same time that 95 percent of all insured institutions were classified into the lowest risk category of the premium schedule, the Corporation intensified its efforts to ensure that the risk-based premium system incorporates all relevant information regarding fund risk exposure. As 1998 ended, the FDIC was engaged in discussions with bankers and other banking regulators on ways to use additional information from the supervisory process, financial reports, and the market to enhance the risk classifications used for setting deposit insurance premiums.

Efforts to Promote Public Understanding

In 1998, the FDIC employed a variety of methods to provide deposit insurance information to insured financial institutions and the public. The FDIC's primary means of answering questions from bankers and the public is through its toll-free Consumer Affairs Call Center (1-800-934-3342). During the year, more than half of the inquiries answered by the Call Center concerned FDIC deposit

insurance. The FDIC answered another 730 deposit insurance inquiries received through regular mail and electronic mail. The volume of deposit insurance inquiries increased approximately 50 percent in 1998, due largely to the FDIC's efforts to increase public awareness of its deposit insurance education program.

A major FDIC initiative during the year was developing the Electronic Deposit Insurance Estimator, or "EDIE," a user-friendly Internet application that consumers and bankers can use to calculate the amount of insurance coverage for deposit accounts at FDIC-insured institutions. EDIE is accessible to novice computer users with no prior knowledge of deposit insurance. EDIE also provides links to other FDIC Web sites that provide useful information for consumers. EDIE can be found on the FDIC's Web site at www2.fdic.gov/edie.

The FDIC maintains a number of consumer brochures and banker training guides on deposit insurance. These documents, which are published by the FDIC and disseminated widely by the agency and FDIC-insured institutions, are tailored to the specific needs of financial institution customers and employees. In 1998, the FDIC updated its most popular brochure for consumers, *Your Insured Deposit*, to reflect simplified amendments to the deposit insurance rules adopted by the FDIC during the

year. The FDIC distributed more than 10 million copies of *Your Insured Deposit* in 1998. Copies of all the FDIC consumer brochures and training materials for bankers are available on the FDIC's Web site.

The FDIC routinely publishes articles on deposit insurance topics of interest to consumers and bankers in quarterly editions of *FDIC Consumer News*, a free publication distributed to consumer organizations, individual consumer subscribers and bankers. *FDIC Consumer News* is also available on the FDIC's Web site.

Another facet of the FDIC's deposit insurance education program is training seminars for employees of FDIC-insured institutions. During 1998, the FDIC conducted 29 seminars on the deposit insurance rules. These seminars were held across the nation and attended by approximately 2,000 representatives from almost 700 FDIC-insured financial institution employees. Participants received an in-depth review of the deposit insurance regulations and interagency guidelines for the retail sale of mutual funds and other nondeposit investments by financial institutions.



▲ The FDIC's electronic deposit insurance estimator—"EDIE"—allows consumers and bankers to easily calculate the amount of insurance coverage for deposit accounts at FDIC-insured institutions. EDIE (and the onscreen helper, "Edie") appears on the FDIC's Web page.



▲ *FDIC Board of Directors:
(seated) Donna Tanoue,
(standing, l-r) John D. Hawke, Jr.,
Ellen S. Seidman, Andrew C. Hove, Jr.*

Donna Tanoue

Ms. Tanoue is the 17th Chairman of the Federal Deposit Insurance Corporation. Appointed Chairman by President William Clinton, she took office on May 26, 1998. Prior to her appointment, she was a partner in the Hawaii law firm of Goodsill Anderson Quinn & Stifel, where she specialized in banking, real estate finance and governmental affairs.

From 1983 to 1987, Ms. Tanoue was Commissioner of Financial Institutions for the State of Hawaii. As Commissioner, her responsibilities included the enforcement of state laws governing banks, savings and loan associations, trust companies, industrial loan companies and credit unions. She is noted for having provided the stewardship for the smooth conversion of industrial loan companies from private insurance coverage to FDIC membership after an unprecedented series of loan company failures shook the financial community.

Ms. Tanoue served as Special Deputy Attorney General to the Department of Commerce and Consumer Affairs for the State of Hawaii from 1981 to 1983, upon her return from the Georgetown University Law Center, where she received her Juris Doctor degree in 1981.

In 1995, Ms. Tanoue was appointed to serve as a member of the Board of Regents of the University of Hawaii, where she had received her undergraduate degree in 1977. She was elected Vice Chair of the Board of Regents in June 1997, serving until March 1998.

Ms. Tanoue held positions as an officer, director, or trustee for the following community organizations: the Aloha United Way, Palama Settlement, High Technology Development Corporation, Maximum Legal Services Corporation, Legal Aid Society of Hawaii, and Historic Hawaii Foundation. She also served as a community advisory board member for Time-Warner Communications of Hawaii, L.P., and Oceanic Cablevision.

Andrew C. Hove, Jr.

Mr. Hove was appointed to his second term as Vice Chairman of the FDIC in 1994. His first term as Vice Chairman began in 1990. Since 1991, Mr. Hove has served as Acting Chairman of the FDIC three times, most recently from June 1, 1997, when Chairman Ricki Helfer resigned, to May 26, 1998, when Donna Tanoue was sworn in as the 17th Chairman. Before joining the FDIC, Mr. Hove was Chairman and Chief Executive Officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska, where he served in every department during his 30 years with the bank.

Also involved in local government, Mr. Hove was Mayor of Minden from 1974 until 1982 and was Minden's Treasurer from 1962 until 1974.

Other civic activities included serving as President of the Minden Chamber of Commerce, President of the South Platte United Chambers of Commerce and positions associated with the University of Nebraska. Mr. Hove also was active in the Nebraska Bankers Association and the American Bankers Association.

Mr. Hove earned his B.S. degree at the University of Nebraska-Lincoln. He also is a graduate of the University of Wisconsin-Madison Graduate School of Banking. After serving as a U.S. naval officer and naval aviator from 1956 to 1960, Mr. Hove was in the Nebraska National Guard until 1963.

Ellen S. Seidman

Ms. Seidman became Director of the Office of Thrift Supervision (OTS) on October 28, 1997. As OTS Director, Ms. Seidman is also an FDIC Board member.

Ms. Seidman joined the OTS from the White House, where from 1993 to 1997 she was Special Assistant to President Clinton for economic policy at the White House National Economic Council. She chaired the interagency working group on pensions and dealt with such issues as financial institutions, natural disaster insurance, bankruptcy and home ownership.

From 1987 to 1993, Ms. Seidman served in various positions at Fannie Mae, ending her career there as Senior Vice President for Regulation, Research and Economics. Other prior positions include Special Assistant to the Treasury Undersecretary for Finance from 1986 to 1987, and Deputy Assistant General Counsel at the Department of Transportation from 1979 to 1981. Ms. Seidman also practiced law for three years beginning in 1975 with Caplin & Drysdale, a Washington, DC, law firm specializing in tax, securities and bankruptcy issues.

Ms. Seidman received an A.B. degree in government from Radcliffe College, an M.B.A. from George Washington University and a J.D. from Georgetown University Law Center.

John D. Hawke, Jr.

Mr. Hawke was sworn in as the 28th Comptroller of the Currency on December 8, 1998. As Comptroller, Mr. Hawke serves as an FDIC Board member.

Before his appointment as Comptroller, Mr. Hawke served for three-and-a-half years as Under Secretary of the Treasury for Domestic Finance. He oversaw the development of policy and legislation in the areas of financial institutions, debt management and capital markets.

Prior to joining the Treasury Department, Mr. Hawke was a senior partner at the Washington, DC, law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter, he headed the financial institutions practice and, from 1987 to 1995, served as Chairman of the firm. In 1975, he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, but then returned in 1978.

From 1970 to 1987, Mr. Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation at the Morin Center for Banking Law Studies in Boston, where he continues to serve as Chairman of the Board of Advisors.

Mr. Hawke has written extensively on matters relating to the regulation of financial institutions, including the book *Commentaries on Banking Regulation* published in 1985. He received a B.A. in English from Yale University and is a graduate of the Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review.

Mr. Hawke succeeded Eugene A. Ludwig, whose five-year term as Comptroller of the Currency expired on April 4, 1998. Until Mr. Hawke's appointment, Julie L. Williams, Chief Counsel at the Office of the Comptroller of the Currency, was Acting Comptroller, also serving on the FDIC Board.

Organization Chart

as of December 31, 1998

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